

Investment Recommendation

SERS' Investment Office Staff recommend that the State Employees' Retirement System Investment Committee interview Ares Management ("Ares", the "GP" or the "Firm") at the December 7, 2021 Investment Committee Meeting to consider a potential commitment of \$100 million to Ares PA Opportunities Fund, L.P. ("APAOF") subject to the satisfactory completion of legal due diligence. This commitment is being contemplated as part of the overall strategic partnership with PA SERS and Ares Management approved in April 2019. The \$100 million upside to APAOF will continue the distressed debt strategy through a proportionate commitment of \$70 million to Ares Special Opportunities Fund II ("ASOF II" or the "Fund") and up to \$30 million in co-investment. ASOF II is currently targeting \$4 billion of capital commitments.

Investment Rationale

Staff identified ASOF II as a strong candidate for SERS' capital commitment as it offers:

- Additional exposure to a high-quality private investment manager that has generated strong net returns;
- Additional exposure to a private investment manager that outperforms private peers and public market indices.
- An experienced team that brings together collective experience and best-in-class processes;
- A flexible, all-weather strategy which allows the team to invest across cycles in both public and private companies;
- A focus on yield as a key objective for the strategy;
- A complimentary portfolio fit within the SERS Private Credit portfolio;
- A well-developed risk management framework;
- A manager with a strong commitment to ESG and DEI initiatives.

Investment Risks

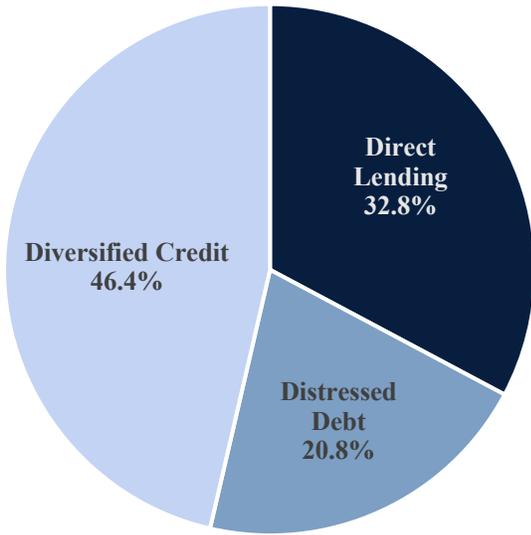
- Fund size increase.
- Prolonged favorable market and economic conditions leading to a potential lack of investment opportunities.
- Potential to overlap with Ares corporate private equity funds.

Portfolio Implications

An upside commitment to Ares PA Opportunities Fund/Ares Special Opportunities Fund II would be considered a 2021 vintage allocation to a fund which is categorized in the Private Credit asset class and Distressed Debt sub-asset class. As of June 30, 2021, SERS' total allocation to the Distressed Debt sub-strategy represented approximately 20.8% of the total Private Credit portfolio.

The following two charts highlight the pro forma effect a commitment to the Fund is expected to have on sub-strategy allocation within the Private Credit portfolio.

SERS PC Sub-Strategy Allocation as of 6/30/21



SERS Proforma Core PC Sub-Strategy Allocation

